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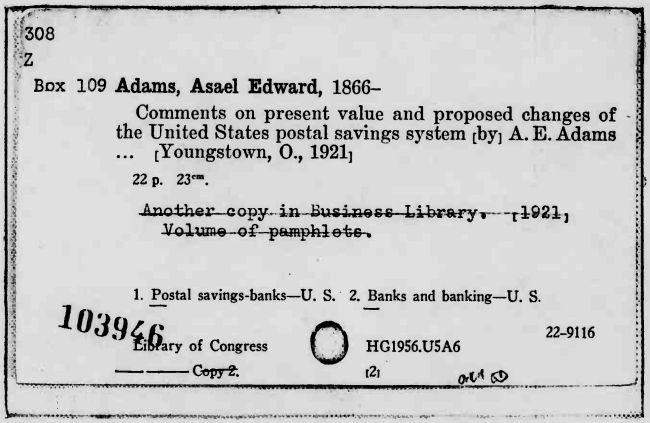

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COMMENTS

ON

PRESENT VALUE AND PROPOSED CHANGES

OF THE

UNITED STATES POSTAL SAVINGS SYSTEM

A. E. ADAMS

Can the United States Postal Savings be extended without injecting the Government into the Banking business?

The Postmaster General says that the Government is already in the banking business.
See page 3 within.

Is government any more competent to provide banking service than transportation, shipping, publishing or merchandising?

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COMMENTS
ON
PRESENT VALUE AND PROPOSED CHANGES
OF THE
U. S. POSTAL SAVINGS SYSTEM

By A. E. ADAMS

OUR Postal Savings System has been operating more than ten years. It has had as high as 13,041 stations open for business (in November, 1913) and now has in round numbers only 6,000 and many of these are inactive.

The deposits through these 6,000 stations amount to, roughly, $150,000,000. This sum is less than 1% of the savings deposits held by the privately controlled financial institutions of the country. That is, it is a sum so small in proportion to the business as a whole that, for practical purposes, the Postal Savings System does not exist.

Because of this fact the recent recommendation of Postmaster General Hays with respect to the system is, in effect, a proposal to create such banks anew; and the question raised by the recommendations is rather more a question as to having any such banks at all than a question as to the details of the recommendations themselves.

To put it another way, if the Postal System is to be rehabilitated, they are in effect to be created. And pretty much everything that can be said either for or against measures aimed to rehabilitate them can be said with almost equal force about having them at all.

Specifically, Mr. Hays' recommendations are: To increase the interest rate; to liberalize both the method of computing interest and the rules governing withdrawals; to pay postmasters fees for building up the business; and carry on thrift propaganda.

The Hays' plan is, in brief, to convert the United States Postal Savings System into a Government Savings Bank. Mr. Hays even goes to the extent of saying that "The Government is in the bank-

ing business," (Report, 1921, p. 84), but I believe his statement to be inaccurate.

I shall not give much space to the details of these recommendations. If it can be shown, as I myself confidently believe it can, that the evils inherent in the Postal System outweigh the good it can be expected to do, then both the postal system and the proposed branch banking system are objectionable, and if postal are objectionable, then all measures aimed to create or vitalize them are also objectionable. So I shall proceed directly with the main question.

In dealing with this question the natural order is to take up first the principal arguments for postal banks as advanced by postal bank advocates; and then, having discussed those arguments, to set forth the principal objections.

The principal arguments for a Postal Savings Bank organized with 50,000 branches, are:

First, That Postal Banks will draw a large volume of hoarded money out of hiding;

Second, That they will provide banking facilities for communities not now properly served;

Third, That there is a public need for hoarded currency;

Fourth, That they will stimulate saving generally; and

Fifth, That they will accommodate the foreigner accustomed to postal savings banks in his own country.

Argument I.—As to Amount of Hoarded Currency.

There are no facts upon which to base safe estimate of the amount of hoarded money in this country. The difference between what we know to be in the country and what we know to be in the hands of the banks and the government is roughly three and one-fourth billions, or say, $30.00 for each man, woman and child in the country. What part of this amount is hoarded no one knows. Mr. Hays has said:

"Mr. Eugene Meyer, Jr., who has given the matter much thought, fixes it at two or three billion dollars."

As we all know, Mr. Meyer was formerly Advisor to the United States Senate Committee on Reconstruction and Production and is now Director of the War Finance Corporation. Whether these facts entitle Mr. Meyer to be regarded as an authority on hoarding or not, this estimate is obviously wide of the mark. That from 60 to 90 per centum of the money in the hands of the people of this country is "hoarded" is an estimate so self-evidently preposterous that it need not be discussed.

In another communication Mr. Hays says: "But there is a tremendous hoarded wealth in the country, estimated by many well informed at a billion dollars." Just how anyone can be "well informed" on a subject of this kind is not clear. Probably the

people best qualified to guess about it are the officers of the small and moderate sized banks who know their communities in a personal way. I doubt if any such officers would guess the volume of hoarded money at anything like a billion dollars.

Vice-President Knox of the Bowery Savings Bank in New York City has rather reluctantly guessed that it might be as much as a half billion. If I, myself, were to guess I would put it at a lower figure than even this. In the more than 25 years that I have been in the banking business, I have not known a dozen authentic cases of hoarding and in no one of these cases has the amount involved equalled $2,000. This may be an exceptional experience. I do not offer it as a basis for making estimates.

In this connection it is to be remembered that people naturally color and exaggerate reports of matters concerning which no exact information is to be had. If an old man is found murdered in his lonely house, it makes a much better story to report that he had several thousand dollars hidden behind a loose brick in the chimney which the murderers failed to discover than to tell the exact truth, which may have been that he had a few hundred so hidden. And it is a simple matter for this story to gather up several thousand more dollars every time it is re-told. People like the flavor of large figures.

Will Government Banks Overcome the Cause of Hoarding?

But of course there is some hoarding. For whatever there is there are three reasons:

First, defective mentality;

Second, illicit transactions; and

Third, timidity with respect to banks.

Postal Banks are no antidote for either first or second. The man who is crazy on the subject of money and gets his sole pleasure from handling it will keep what he has and continue to handle it no matter how many banks the Government starts, while the man who carries his capital in his own pocket because he is afraid to leave traces of his transactions on the books of banks will also go his accustomed way, no matter how many banks the government starts.

The hoarding of those who fear the banks is another matter, and there should be little doubt as to the power of a government bank to bring out some hoardings of this kind. Presumably, the United States Postal System has already brought out pretty much all it ever can but for the sake of the argument we will admit that if re-vitalized it can bring out more. Then the question is—can it bring out enough more to make the operation worth while? This is a difficult question to answer.

We know neither the size of the group which fears banks nor the amount of its hoarding. The only clue we have as to the size

of this group is to be found in the record of those events which are the underlying causes of their fear, namely, the record of bank failures. It will not throw much light on the question of how extensively money is hoarded through fear to show in terms of bank failures just how great this cause of fear actually is, but it will throw some light.

Safety of Bank Deposits

Since the strengthening influence of the Federal Reserve Banks has been felt national bank failures have been at the rate of, roughly, 17/1000 of 1% of the total deposits of all such banks, each year.

In the year 1920 the deposits of the national banks which failed were a little greater than this; they equalled 20/1000 of one per cent of the deposits of all such banks.

Prior to the organization of the Federal Reserve System bank failures were more numerous. But as we have not even yet experienced the full force of the strengthening influence of these banks it will not be far amiss to take the year 1920 as a basis from which to figure. It is true, of course, that 1920 came at the tag end of a period of unprecedented expansion and prosperity and there will be more failures in some other years. But we are trying to deal now with the average rather than with any specific year, and we are justified in assuming that whatever part of the good showing made in 1920 is due to the position of that year in the cycle of business movements will be off-set by the increased strength of the general banking situation which is certain to result from the continuing support and influence of the Federal Reserve Banks. The showing made in 1919 was much better than that of 1920.

Taking then this 20/1000 or 1/50 of one per cent as a basis for our calculation, we come upon some interesting figures:

Since the inception of the national banks 594 such banks have failed and 564 of these 594 have been liquidated. The depositors of the 564 banks which have been liquidated have received, on an average, 83½ per cent of their claims. That is to say, they have lost 16½ per cent of the moneys they had on deposit when these banks failed.

These figures cover a period of nearly sixty years, a period during which the country passed through two exceedingly severe panics and several acute but short-lived panics, a period during which there were no Federal Reserve Banks and no provisions for automatic expansion and contraction of currency. If during such a period national banks which have failed could be liquidated with a loss of only 16½ per cent to depositors, it is reasonable to assume that in the future such banks can be liquidated at an equally low or perhaps even lower percentage of loss.

If, then, national banks are to fail at the rate of 1/50 of one percent a year, speaking in terms of deposits, and the depositors

in the failed banks are to lose on an average of 16½ per cent of their deposits there will be an annual loss to depositors in these banks equal to 33/10,000 of one percent of their deposits.

For incorporated banks other than national banks we have no such complete figures; but such figures as I have been able to obtain indicate that in the two classes of banks combined bank depositors are losing annually through bank failures a sum equal to something less than five one-thousandths (or 1/200) of one per cent of their deposits!

These figures, it is true, do not square with popular impression. But popular impression is doubtless based more upon gossip than fact. Whenever a bank closes there is a good deal of stir and excited talk. Also there are scare headlines in the local papers and wide-spread publicity by newspapers generally. Besides this there are many failures of brokers, foreign exchange agents, investment houses, mortgage companies and the like which are commonly reported as "bank" failures. And there is also the fact that the individual who is caught in a bank suspension will inevitably remember that fact all his life and talk about it a good deal even though he may receive one hundred cents on the dollar for his deposit.

It is not remarkable if the public has a false conception of the matter. Indeed, it is probable that these figures will astonish some of the members of the American Bankers Association. They surprised me so much that I had to go over the calculation several times before I could feel satisfied that it was correct. Even if there is error, it cannot be enough larger to affect the general result. We can multiply this 1/200 of one per cent several times and still make the point that **deposit losses are almost negligible and that bank deposits in America are about the safest investment on earth.**

If the Government operated all of the banks in the country and guaranteed all of the deposits, this annual loss of 1/200 of 1% would be done away with; **but who is there who does not know that under governmental operation there would be waste, mismanagement and inefficiency enough to take several hundred times this amount out of the public pocket, and inconvenience, annoyance and bad service enough to take a corresponding slice out of the bank patron's disposition?**

From these figures but one conclusion can be drawn, namely, that if much distrust of banks is abroad in this country it is due to misapprehension rather than to actual losses. And this conclusion leads, at least inferentially, to another, namely, that the extent to which people distrust banks is over-estimated. People do not naturally wish to distrust banks. They naturally wish to trust them.

If the actual reasons for distrust are negligible, it is a fair assumption that the extent of the distrust is not particularly great. Incidentally, this conclusion checks with my personal experience.

I have heard from time to time of many people who distrusted banks as such; but I have never knowingly come face to face with one. But, again, this may be an exceptional experience.

In any case, these facts with respect to the soundness of banks generally are evidence, though indirect, that the **group of people who hoard from fear of banks is smaller than is generally supposed;** and this is the point I am trying to make.

Should the United States Encourage Distrust of Banks?

Though something of a digression it may not be amiss here to remark that the proper thing for the government to do if it wishes to dispel this supposed distrust of banks is not to tacitly admit that there is ground for it by itself entering the banking business, but rather to show by its own attitude and by the laws it enacts that it itself knows that there is no ground for it.

Or, if it is really very much concerned, it can go farther even than this. It can undertake a campaign of education in which it can set forth the facts which are here given and make known to the entire people the exact measure of risk or lack of risk involved in using the banks now organized and it can conduct such a campaign as this at very much less expense to the general public than would certainly be involved in any banking venture of its own.

The United States has the best banking system in the world and the safest banks. It should be the pleasure, as well as the duty, of every government official whose work brings him in contact with these institutions to do everything in his power to make known the fact of their soundness and dissipate unwarranted suspicions concerning them.

Next there comes the natural question already alluded to: Why, if there has been anything like as much hoarding as is claimed, has the United States postal system not already drawn the hoarded moneys out of hiding? Surely in the ten years they have been operating, there has been time enough and opportunity enough.

The man who hoards money risks his life as well as his money. Is it to be presumed that he would rather suffer this risk and get no interest than be free of it and get 2%? Such a presumption is ridiculous. No one but a mental defective would take the risk of being robbed and killed when he could relieve himself of this risk by depositing in a government bank, even if the government bank paid no interest at all.

It is a perfectly safe prophecy that merely **increasing the rate of interest paid by Postal Savings Banks from 2% to 3% as Mr. Hays proposes, will not result in drawing so much as one nickel out of hiding.**

This whole phase of the subject of hoarding then may be summed up to this: It is almost certain that the amount of money hoarded is much less than is generally supposed, and it is absolutely certain that the guesses of the postal bank advocates with respect to it are very wide of the mark.

Does the Public Need the Hoarded Wealth?

But there is another phase. Postal bank advocates always assume that great public benefits must necessarily follow drawing money out of hiding. But is this true?

There is certainly no shortage of actual circulating money and so long as the Federal Reserve Banks continue to be handled as well as they have in the past there will continue to be none. The actual fact is that even if Mr. Hays' estimate of a billion hoarded dollars were sound and a substantial part of this billion dollars could be brought into circulation in the course of a few years, the benefit to the country as a whole would be negligible. It is worthless to the public as a basis of credit or more circulation. The only people who would be benefitted appreciably would be the hoarders themselves.

So our final conclusion with regard to hoarding is this: There are no facts to warrant either (1) the assumption that the postal system will draw large sums from hiding or (2) the assumption that the sums which they do draw will bring any great benefits to the citizenship as a whole.

ARGUMENT II.—Need for More Banks

The second argument for the Postal Banks is that they will provide banking facilities for many people not now able to patronize existing banks. This was the argument which even more than the hoarding argument swayed popular opinion before the postal system was first inaugurated. Its advocates of that time drew startling pictures of great areas of our country unserved by savings institutions.

I recall hearing a government official in high place, a gentleman whose sincerity could not be questioned, state in the course of a public speech that Ohio, my own home State, had but three savings banks. And the tragic part of it was that he himself believed it and was able to prove it to the satisfaction of most of his audience. At the time that speech was made there were in Ohio more than one thousand banks whose savings deposit windows were open every business day in the year, not to mention several hundred building and loan companies.

The pictures being drawn by present day Postal Bank advocates are little if any less startling. In a recent issue of "Current Opinion," Mr. Eugene Meyer, Jr., whom I have already quoted, makes use of the following language:

"It is no reflection upon the private savings banks, either the mutual companies or the stock companies, to say that their facilities are inadequate to the great needs of the hour."

To anyone at all familiar with the completeness with which this country is supplied with banking facilities, such statements as

these are inexplicable. They have their rise no doubt in the incomplete and misleading figures with respect to savings banking which are to be found in the reports of the Comptroller of the Currency. Indeed, I know that in the case of the government official first mentioned the figures quoted were taken from these reports; and, sadly enough, they were taken correctly!

The fact with respect to these reports is that they were not in the first instance aimed to cover much of anything except the operations of the national banks. Other bank statistics have crept into them, but they have never either given complete figures with respect to savings or explained fully the figures they have given.

In earlier years these reports recognized no savings institutions of any kind except mutual and joint stock banks: and of banks of these kinds there are very few anywhere in the United States except in the Eastern and New England states. As upwards of two-thirds of the savings deposits of the country are held by banking institutions of types other than these, it is not strange that many people have been misled as to the extent of the savings of the country by these Comptrollers' reports. And, unfortunately, these reports are the only official documents in general circulation which deal at any length with this matter.

Savings Banks Total 30,000, Not 1,700

I myself am satisfied that, if the legislators who in the first instance were responsible for the Postal System, had known the actual facts with respect to the savings facilities of the country, there never would have been any such banks; for, I have said, it was the argument that there is a dearth of such facilities which more than any other brought these banks into existence. Furthermore, it probably is this argument more than any other which, if any, will convince Congress now that Mr. Hays' recommendations should be translated into law.

What, then, are the facts?

There are 31,000 banks in the United States. (I am here, as elsewhere in this discussion, of course, including trust companies whenever I use the word "banks" in a generic sense).

Savings deposits are accepted by probably 30,000 of these 31,000 banks. Outside of certain banks in a few large cities, banks of any kind which do not accept such deposits are rare. As some banks which handle both commercial and savings accounts do not classify their deposits it is not possible to tell exactly what the total savings deposits of these banks are, but enough figures are available to make it safe to say that they amount to more than $15,000,000,000. This figure, of course, includes savings deposited on certificates as well as those deposited on pass books.

In this connection it is interesting to note that the Report of the Comptroller of Currency, 1920, Vol. 1, page 242, shows that

banks which the report lists as savings banks, namely, the mutual and stock savings banks, have deposits of roughly $6,500,000,000, and that there are, roughly, 1,700 of these banks in the United States. There is quite a wide difference between 1,700 banks and 30,000, and there is quite a wide difference between $6,500,000,000 of savings deposits there reported and the more than $15,000,000,000. of such deposits known to exist.

In addition to these 30,000 (approximately) banks which take savings deposits there are in the country nearly 8,000 building and loan companies. These companies take nothing but savings and are now holding upwards of $2,500,000,000 of such deposits.

Thus we have, all told, say 38,000 financial institutions receiving savings deposits; and holding not less than $17,500,000,000. of such deposits and perhaps considerably more.

This means:

(1) There is one savings institution in this country for about every 3,000 people, and

(2) there are savings deposits in this country equaling roughly $175.00 for every man, woman and child in the population.

THERE IS NO PARALLEL FOR THESE FIGURES ANYWHERE ELSE IN THE WORLD. The highest savings deposit per inhabitant reported by any other country is reported by New Zealand which has about $150.00 per inhabitant. Germany reports savings deposits of about $75.00 per inhabitant, and France about $23.00.

It is difficult to understand how, in the face of these figures and facts any one can claim that we are short of savings facilities.

Distribution of Banking Facilities

But it may be argued that while we have enough of such facilities in the aggregate, the banks are so badly distributed that, in the language of Mr. Meyer, "There are thousands of places without banks of any kind."

From a theoretical point of view an argument of this kind would seem to be illogical, for banks automatically distribute themselves largely according to need. There is never a time when a community, of any size, needing a bank cannot get one. But this, too, is theory.

What are the facts? The most significant figures we can obtain will be those which relate to sparsely settled districts, for everyone knows that the large cities have at least as many banks as they need and that there is hardly a center of population of any considerable size anywhere in the country without a bank. Here are some figures which bear upon this phase of the matter:

The 15 most sprasely settled states in this country have a population of, roughly, 14,500,000 and they have, roughly, 7,500 banks with total deposits of nearly $3,500,000,000. Also they contain eleven cities whose population exceeds one hundred thousand each. Taking out the population, banks and bank deposits of these eleven cities, we come upon the following facts: These 15 most sparsely settled states have a population outside of their large cities of, roughly, 12,500,000 people; bank deposits of more than $2,500,000,000 or $200.00 per capita; and in number, roughly, 7,200 banks or one bank for every 1,700 persons. There is in the United States one bank for every 3,500 people.

In other words, these most sparsely settled areas have twice as many banks in proportion to their population, as has the country as a whole.

Again, the Postal Savings deposits in these areas are equal to about sixty cents for each inhabitant, as against an average of one-hundred and fifty cents per person in the country as a whole. Postal savings deposit are only 3/10 of one per cent of the amount of the bank deposits held in these areas, as against 4/10 of one per cent for the entire country. And this also if it indicates anything, indicates that in proportion to their needs these frontier and rural areas are particularly well supplied with banks.

I do not know what more can be said about the matter of distribution. I do not see how, in the face of these facts, it is any more possible to maintain the claim that the distribution of banking facilities is bad than it is to maintain the claim that the aggregate of such facilities is insufficient.

ARGUMENT III.—Post Office Stimulation of Saving?

With respect to the third point being made by the Postal Bank advocates, namely, that such a bank will stimulate saving, we are likely to conclude that in whatever extent it does do this it will do it at the expense of the stimulation to saving now being effected by the other saving institutions of the country; for if, as I think I have shown, Postal Savings business can be built up in a large way only at the expense of the business of other savings institutions, then the end of the matter will be that the constant stream of virile advertising now flowing from the other banks will diminish.

Today, hundreds of the ablest advertising men in the country are in the employ of banks. There is a steady flow of advertising of which a large part is "thrift" advertising pure and simple, which covers every part of the country every day in the year.

There is no subject before the American people that is being more persistently hammered at than that of thrift. There is no article of trade handled in the whole world, to the advertising of which so much skill and printer's ink are devoted.

The re-creation of the Postal Bank might, and probably would, for the moment increase the amount of this thrift propaganda, but it cannot be expected to do so permanently, for the banks which now carry on this propaganda would diminish their efforts in proportion as they realized that the government was taking over their job.

While it is not exactly germane, I wish here to express the opinion that the government of the United States will never be able to carry on and continue a thrift campaign equal in effectiveness to that which is now being carried on by the privately controlled banks. The keen competitions between these banks—and if there is anyone who thinks it is not keen he can set himself right in about five minutes by running one—is a constant spur. And, generally speaking, the men who run them put the best there is in them into the business.

The Government of the United States can never hire the kind of spirit that is now behind the thrift propaganda conducted by the banks that are privately controlled.

The Government of the United States can never alone do as much to stimulate saving as is now being done.

And what is equally important, whatever it does in this line will react unfavorably upon all of the privately controlled banks of the country,—will in fact discredit them.

The Government is an absolutely safe depository. This being the only particular in which it can hope to excel such banks, this will be the feature it will be obliged to stress if it is to do any effective advertising.

The post office department would not tell the public that it cannot now and can never furnish to its patrons the personal service and the community service, or the costly facilities which savings banks now provide the public.

It takes no seer to visualize the reaction certain to follow the emphasizing of this feature. The effect will be to strengthen the belief, already much stronger than the facts justify,—that privately controlled banks are not as safe as they should be. It may be argued, and perhaps will be, that the government can conduct an effective advertising campaign without stressing this feature, but I myself am firmly convinced that it can do nothing of the kind, even indeed that it cannot do any advertising of any kind without inferentially telling the public that it has entered the banking field because the privately controlled banks are not serving the public as safely or satisfactorily as they should.

The fact is, that, once having entered the banking field, there is nothing the government can do to increase the volume of business it handles—no matter how carefully it may do it—that will fail to react to the discredit of other banks, and this rule applies not only to advertising but to everything else. The mere entry of the government

into the business is itself a loud announcement that there is need for government intervention, that there is something wrong or something lacking in the privately controlled banks; and every step taken to enlarge the government field of activity constitutes re-affirmation and re-statement of this announcement. **It was a mistake for the government ever to enter the banking business at all.** If the government now advertises for more banking business or in any other way attempts to increase its activities in this line it will add to the discredit which its entry already has cast upon privately controlled banks, no matter how carefully it may word its advertisements or plan its other activities. This is just as inevitable as that the sun rises.

When the government first entered the banking business, it took a step for which there was no justification and no reason. Anything and everything that it now or hereafter does to expand its activities will add to the wrong thus committed.

ARGUMENT IV.—Postal Banks for the Foreign Born.

The fourth point in the pro-Postal Bank argument calls for but little comment. There is no ground upon which to base the assumption that because the foreigner is accustomed to Postal Banks in his own country we are under obligation to supply him with Postal Savings facilities when he comes here. And neither is there ground for the assumption that there is any particular advantage likely to accrue either to him or ourselves from so doing.

The foreigner comes to America of his own free will and for his own advantage; and more often than not he stays but a few years.

While it is, of course, our duty to treat him well, it would seem rather **more reasonable for us to expect him to adapt himself to our institutions than for him to expect us to adapt our institutions to him.** Yet the Government meets him at the immigration station with the request for him to patronize the Postal Savings System!

Furthermore, it is the experience of a good many people who have had dealings with foreigners that the foreigner is perfectly willing to patronize American banking institutions other than these controlled by the government if he is given reasonable encouragement.

Less than one per cent of the total savings deposits of the foreign born is held by the local postal savings station in the city in which I live, a city of whose inhabitants 60 per cent are foreign born.

The bank which I represent has conducted an exclusive foreign department for twenty years. This department occupies a separate room, built and equipped for the purpose. The tellers are all foreign born and speak between fifteen and twenty different languages. The business handled is exclusively that of patrons who speak no or very

little English. Normally the business of this department is from twenty to thirty times as great as that of the local postal savings station,—and loath as I am to admit it the other banks in the city do some business also!

True, we all pay four per cent against the postal bank's two per cent, but if there were much of any foundation for the theories about this matter which are advanced by postal bank advocates, this difference in rate could not alone account for any such tremendous difference in volume of business handled. In view of this experience I myself cannot take much stock in the theory that the foreigner either needs or practically wants Postal Savings Banks, much less in the theory that he is afraid of our privately controlled institutions. Indeed, judging from this experience, I would say that **the foreigner would rather do business with a good privately owned American institution which speaks his own language and treats him with consideration, than to do business with the government even if there were no great advantage in doing so.**

Other Postal Arguments Are Immaterial

In addition to these four principal arguments for Postal Banks there is a long list of lesser ones, but the answers to these four are in a sense the answers to all. If (a) much less money is hoarded than is claimed, if (b) much less of what is hoarded can be drawn from hiding by Postal Banks than is claimed, if (c) there is no lack of saving facilities in the country, if (d) our privately controlled savings institutions are safe, if (e) no ultimate increase in the effectiveness of thrift propaganda is to be expected from Postal Savings Banks, and if (f) there is no obligation to make special provision for the foreigner, then there is little to be said in favor of Postal Banks, and the lesser arguments do not matter.

Popular Demand for Government Banks

Now, before passing to the objections to Postal Banks, a word as to the attitude of the public.

The propaganda which eventuated in the establishment of the Postal savings system of 1910 was started in official circles in Washington and was carried on largely by the newspapers and by men in public life. The general public had little, if anything, to do with it.

Not one person in a hundred either knew anything about such banks or cared whether we had them or not. Broadly speaking, the same thing is true today.

There is no popular demand for re-creation of the Postal Savings System. People generally know that they do not need such banks and are taking no interest in the discussion of them.

Seeing in them neither good nor harm of any great consequence, they are willing to have them or not have them as the case may be.

The favorable public sentiment which was manufactured twelve years ago "did not last over night." Neither will that which is being manufactured today.

THERE IS NO BASIS FOR A FAVORABLE PUBLIC SENTIMENT EITHER IN THE EXPERIENCE OF THE NEEDS OR THE WANTS OF THE PEOPLE AND WHATEVER THERE IS OF IT WILL CEASE TO EXIST IMMEDIATELY THE PROPAGANDISTS CEASE TO TALK.

Now as to the objections:

OBJECTION I.—Competition With Existing Banks.

It is freely stated by Postal Bank advocates that most of the objections come from bankers and that they are based upon the fear that the Postal Banks will interfere with their business.

There is no doubt that if put on a competitive basis the postal banks would very seriously interfere with the business of other banks. Moreover, **the practical banker knows that a Postal Bank will never amount to anything unless it is put on a competitive basis.**

There may be a few bankers, of course, who having accepted the exaggerated figures of Postal Bank advocates with respect to hoarding and lack of banking facilities, and who think that in some far-off place Postal Banks can develop business without drawing on existing banks. But each of these bankers, as well as all others, knows that in his own particular district they cannot.

Mr. Hays says: "Postal Savings Banks shall not compete with other savings banks," and it evidently is his opinion that Postal Banks can be given drawing power enough to develop a large business without being given drawing power enough to compete with other banks. I am of the opinion that in this Mr. Hays is mistaken.

The Postal Savings Banks will either be attractive enough to draw business from other banks or they will be so unattractive that they will not draw business from any source. There is no middle ground. Either they will compete or else they will, for practical purposes, not exist.

It is true, of course, that up to a certain point every bank added to a community increases the sum total of bank deposits in that community. But it is not and cannot be true that a new bank coming in can build up any large business without drawing from others.

The extent of which bank deposits can be created out of thin air is limited.

Neither is it true that any bank—least of all a government bank—can be so nicely regulated as to attractiveness that it will get just exactly the amount of deposits it itself creates, and no more.

In other countries which have operated Postal Savings Banks, **the rule is that these government banks either dominate the situation completely or else amount to very little.** In New Zealand the Postal Savings Banks hold approximately 90 per cent of the total savings deposits of the country, and in Sweden, less than 5 per cent. Of course, there are exceptions to this rule, but nevertheless it is the rule.

The Postal Banks either compete with and draw business from other banks or else they are a negligible quantity. Postal Bank advocates may camouflage this fact, as they will, but it is and always will continue to be a fact. In spite of this, however, **the popular idea that bankers oppose the Postal Banks because they fear competition has little foundation.**

The banker is a citizen and his business is both necessary and useful. He has invested billions of dollars in this business and has devoted the most of his time and the best of his talents to its upbuilding. He is wholly justified in opposing any proposed government program that is calculated to injure it, if he knows that adoption of that program will not benefit the general public. But the interesting part of the matter is that such opposition as he is now offering to the Postal Banks is not based upon any such ground. It is based almost wholly upon the ground that **the Postal Bank denotes dangerous public policy and symbolizes an evil principle** which if generally applied would work irreparable injury to the whole country.

It is this objection that I wish particularly to stress, for to my own mind it is more serious than any other or, for that matter, all others. But to preserve the natural order of the discussion I must first mention certain other objections which are commonly offered.

OBJECTION II.—Results of Government in Business.

The government cannot run any kind of business either efficiently or economically. **The government organization is a POLITICAL organization. It never by any magic can be transferred into an efficient BUSINESS organization.**

The experience of the last few years is tragic with proof that this is so. In almost every fixed line in which the government hand has carried on, waste and confusion have taken toll.

OBJECTION III.—Violates Rules of Sound Savings Banking

The Postal Savings Banks divert credits from their natural channels.

They will take from some communities potential capital which they need and give to others potential capital which they do not need.

They will be rigid.

They will pay too high a rate of interest in some districts and too low a rate in others.

They, in time, will necessitate investment by the government of many millions of dollars in additional equipment and also employment by the government of many thousands of additional employees.

They will cost the people of the country either in the taxes paid or in interest not paid, an enormous sum of money over and above what the privately controlled savings institutions are now costing.

They will disturb the security markets and increase the burdens of commercial banks.

They will serve the public unsympathetically, ungraciously and unhelpfully.

OBJECTION IV.—Banking as Field for Governmental Intrusion

There is no better reason for governmental intrusion into the banking business than for governmental intrusion into the steel business, the cotton business, the leather business, or any other.

There is nothing like as good a reason for governmental operation of banks as there is for governmental operation of railroads and ships—two things it already has tried and with disastrous results.

The soundness of these objections few unprejudiced people will question. Alone they are reason enough for opposing Mr. Hays' program. But as I myself see the matter, the other is much more important.

OBJECTION V.—Dangerous Public Policy

The Postal System is a tangible manifestation of that tendency of mind which, leading first to paternalism and then through this to socialism, draws on to economic chaos.

For more than a quarter of a century this tendency of mind has been gradually gaining strength all over the world. In this country, feeding in part upon the ideas of discontented people imported from abroad, in part upon the flaming heresies of the soap-box orator, and no little upon the impractical idealism of college and university teachers, it has become a vital force,—a force which stimulated as it was by the many departures from sound principles made seemingly necessary by the war has now become so much a part of us that we take it as a matter of course and treat it with unconcern.

It has become so much a part of us that we discuss the proposals which spring from it as we now are discussing this postal matter, as if there were nothing involved but a question of immediate expediency. One of the first important acts of the new Postmaster General, an official appointed by the author of the now well-worn slogan "more business in politics and less politics in business," is to remind us that it still is alive in that city.

Already it has given us the Adamson Act, the Clayton exemptions, the Railroad Labor Board, the Federal Farm Land Bank and numerous other regulations and institutions which are flat repudiations of the principles upon which our democracy is based.

Already it has given us a clearly confined class-consciousness which is the best soil in the world in which to propagate hatred and revolution.

Already it has poisoned our private as well as our public thinking, and in one disguise or another its manifestations are showing in almost every department of life. And so often these manifestations are cloaked in the gracious raiment of good intentions that even when we recognize them we are loath to condemn them. It is one of the great dangers that go with this tendency of mind that numbers of honest, earnest and intelligent people develop it without being aware that they are doing so, and another that many do not develop it without criticism because they do not like to criticise things proposed by people whose motives are above suspicion.

The Trend to Paternalism

Let us glance at the principal evils that inhere in this tendency to paternalism of government:

Just as the least governed people is the best governed people, so, speaking with respect to government control, it the least regulated business, the best regulated business.

The laws which spring from this tendency of mind inhibit and restrain, they clog and obstruct, they increase the cost of everything they touch and they lower the productivity of every one they regulate. They make for antagonism, for friction and for lost motion. They are sand in the bearings of the economic machine, and by slowing down the operation of that machine they retard progress and increase the man cost of living. They are pernicious evils!

The institutions which spring from this tendency of mind interfere even more with the natural flow of fiscal activities. They increase the actual cost of living and add in kind to many of the other detrimental results which come from regulatory laws. They diminish opportunity for individual enterprise. They build barriers to the free play of natural competitive forces. They also work injustice both

upon those who operate them under government order, upon those who patronize them under compulsion, and upon the general public.

They are, if anything, more pernicious than the regulatory laws.

Again, there is the even more threatening evil that grows out of the fact that spread of this tendency in so-called higher circles is aid and comfort to the radical and the real backbone of all destructive "isms" of the time.

These are the more obvious and more immediate evils. There are others of a much more serious character.

Strikes at Integrity of Mind

There are reactions upon the mind and character of the people—reactions so far reaching as to constitute an actual menace to the integrity of both. It is these reactions that are the more grave evil. It is upon mind and character rather than upon fiscal progress that the safety of civilization depends. That which strikes at our pocketbooks may be unpleasant but it is not likely to be fatal, but that which strikes at our integrity of mind is serious.

And these laws and institutions, these innocent-eyed offsprings of this perverted tendency of mind, strike at our integrity of mind.

Of all the so-called helps that make men helpless, these by the government easily are the most pernicious. They sap our self-reliance and our resourcefulness. They impair our sense of values and our sense of fairness. They shake our faith in the righteousness of natural law and the infinite justice of Him who made it.

As yet we have only nibbled at these helps, but already we are losing something of our self-reliance. Already we are seeking to shirk responsibility for our own individual well-being and trying to blame our individual troubles upon someone else. Already we are running to Washington with many of our fiscal ills and lighting the fires of hatred and distrust.

If we cannot find a house to rent just where we want it and when we want it, there is forthwith a housing problem which it is the business of the government to solve.

If we cannot sell all the steel we make or all the grain at home then there is an export problem and the government must promptly find ways to finance people in other countries who are not entitled to credit so they will buy our surplus.

If our wages are lower than we think they should be then there is a labor and capital problem and the government must find a way to make what our employer is willing to pay square with what we are willing to take, or say, make six substracted from eight leave nothing.

If we cannot borrow money enough to enable us to carry our surplus stock or crop until prices are more to our liking then there is a financing problem and the government must help us solve that. If there is unemployment it is the same thing, and so it goes through a long list.

In the coal fields of West Virginia civil war has been going on for two years. If these are the results of merely nibbling what is to come if we begin to partake freely? Let us not forget that craving for government help is one which grows with indulgence. The more we get, the greater the seeming need to get still more.

Aid One Class, Harm Another

Furthermore once we are committed to class privilege, to governmental aid and governmental operation there is no natural place to stop. There is no possible place to stop. What has been done to aid one group re-acts to the detriment of some other. Then the other must be aided to even up, and this in turn works to the disadvantage of still another. The government cannot help one group without injuring others.

The government does not create anything; it merely disturbs natural distribution. Thus we must go on and on, and as we go on and on fiscal confusion increases and powers of resistance diminish.

With every addition to the laws and institutions which spring from this tendency of mind there comes a corresponding decrease in the self-reliance of the people affected. As the first multiply so does the other diminish. Class hatreds are augmented. Unwarranted discontent is spread. Respect for the rights of others is dissipated. Sense of obligation is impaired. Finally, of the rugged independence and the sturdy resourcefulness which made this nation what it is nothing is left but shreds.

Our land is one of unmeasured resources. Our day is one of unequaled productivity. If we work one day in four we will have enough to eat and enough to wear. From many of the fears and dangers that have compelled other races of the past to keep sane and sound in order to live at all, we are entirely free. From famine, pestilence and foreign invasion we are practically immune. We are driven neither by the spur of necessity nor by the lash of fear. **There is nothing that can drag us down as a nation except our own weakness!**

In the early beginnings of human life it was largely the external forces that shaped the destinies of men. Today with us it is largely the internal forces. It is what we are and think that will tell the story of our rise or fall.

Above any other people who ever have lived we have been blessed with opportunity, but just as privilege and obligation are

one and inseparable, so are opportunity of rising and danger of falling one and inseparable. What we think, that surely we shall be. Out of our own tendencies of mind almost alone will come our destiny.

Our future is our own to make or break at will.

Unchecked, this evil tendency of mind inevitably will work incalculable injury. It is freighted with more potential trouble than all the other forces of evil that move in the life of the time. It is a serious menace to our national well being.

To most people, I know, the seriousness I am attaching to this would seem unwarranted. I make no apology!

The complacency with which we sat idly by while Germany in plain view set the stage for the greatest tragedy in world history is still fresh in memory.

I look upon this tendency of mind as the most ominous development of modern times!

The only reason why I have not used stronger language in dealing with it is that I do not know any!

Conclusion

The Postal Bank is a manifestation of this tendency of mind to favor paternalism and governmental "aid," to inject the government into business, to weaken our self-reliance.

I am opposed to the Postal Savings Bank, and with equal positiveness I am opposed to each and every other manifestation of this tendency of mind.

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